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RUEHJO/AMCONSUL JOHANNESBURG 8874  
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SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER FEBRUARY 6,  
2009 ISSUE

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¶1. (U) Summary. This is Volume 9, issue 6 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Reserve Bank Cuts Interest Rate
- South African Notes Pare Gains as Inflation Measure Changes
- Trade Deficit Revised Lower
- January Vehicle Sales Worst in Eight Years
- Emigration Down; Skilled Workers May Return Home
- SEACOM Undersea Cable Proceeding as Scheduled
- General Electric is Doing Deals in South Africa
- Mining and Other Jobs Loss Barometer
- Audit Shows Gaps in South Africa's Mine Safety Standards
- NanoAfrica2009 Conference in Pretoria

End Summary.

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Reserve Bank Cuts Interest Rate  
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¶2. (U) The South African Reserve Bank (SARB) cut its key monetary policy interest rate, the repo rate, by 100 basis points to 10.5%. The full percentage point reduction, the biggest single adjustment in more than five years, adds to December's 50 basis point cut that started unwinding the 500 basis point hikes between June 2006 and June 2008. CPIX inflation (CPI less mortgage cost) has eased sharply since hitting a peak of 13.6% in August last year, and is seen slowing further in January, aided by the introduction of a revised and re-weighted headline measure. The economy is under strain with consumers battling to cope with relatively high interest rates, while a global slowdown has added to pressure on industry. (Business Day, February 5, 2009)

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South African Notes Pare Gains as  
Inflation Measure Changes  
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¶3. (U) South African bonds and the rand were little changed after Statistics South Africa (StatsSA) released details of a new method

to calculate consumer-price inflation. StatsSA estimated CPIX inflation would have been 1.2 percentage points lower in December had the new product weightings in the consumer-price index been applied. Bonds pared earlier gains while the rand fluctuated between gains and losses after the announcement. Investec portfolio manager Vivienne Taberer commented, "The estimates are still in line with expectations of a drop of 2 to 3 percentage points between the December and January numbers." (Bloomberg.com, February 3, 2009)

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Trade Deficit Revised Lower  
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14. (U) The South African Revenue Services (SARS) revised downward South Africa's trade deficit for 2008 after excluding gold that was temporarily imported for refining purposes. SARS announced in a statement the shortfall for the year stood at R64.5 billion (\$6.5 billion) rather than R88.05 billion (\$8.8 billion) as previously published. Total imports for 2008 were revised from R751.1 billion (\$7.5 billion) to R727.6 billion (\$7.3 billion), while exports remained at R663.1 billion (\$6.6 billion). The revised deficit for the third and fourth quarters were R19.3 billion (\$1.9 billion) and R14.7 billion (\$1.5 billion), respectively, down from the R26.6 billion (\$2.7 billion) and R30.9 billion (\$3.1 billion). The change will relieve some pressure on an ailing current account, which has weighed heavily on the rand. The rand weakened by almost 30% against the dollar last year. IHS Global Insight chief economist Ronel Oberholzer commented that the erroneous data might have had an indirect bearing on monetary policy. The SARB would have been cautious about making decisive interest rate cuts to prevent further decline in the exchange rate, in the face of a weak rand which was ostensibly caused in part by the overstated trade deficit. (Business Day, February 3, 4, 2008)

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January Vehicle Sales Worst in Eight Years  
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15. (U) National Association of Automobile Manufacturers of South Africa (NAAMSA) reported new vehicle sales declined from 47,215 units in January 2008 to 30,503 units in January 2009, the worst performance in eight years. NAAMSA said all sectors of the South African automotive industry were experiencing an unprecedented and severe deterioration in conditions as the economy rapidly slowed. Exports of South African-produced motor vehicles declined by 7.2% (year-on-year) y/y in January. Manufacturer's projections suggested that overall industry export sales could decline by as much as 35% in 2009. NAAMSA expects that market sentiment and automotive industry trading conditions will continue to be tested by the still-high interest rate environment, record high levels of household debt, volatile exchange rates and unpredictable international financial markets in 2009. Recent above-average new vehicle price increases would also serve to undermine affordability and demand. Any improvement in international trading conditions would only occur after the severe global economic and financial crisis dissipates, NAAMSA speculated. (Business Day, February 3, 2009)

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Emigration Down;  
Skilled Workers May Return Home  
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16. (U) Layoffs abroad and a weak rand at home mean that emigration has become less appealing to many South Africans. Moving company officials report a dramatic decline in the number of South Africans emigrating to popular destinations like Australia, New Zealand, and the United Kingdom. The effects of the global financial crisis on those countries has caused some South Africans who are living abroad to consider returning home, which may be good news for South Africa. Despite the contraction in the domestic economy, there is still a demand for critical skills in the engineering, finance, and health

fields. (Business Day, February 4, 2009)

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#### SEACOM Undersea Cable Proceeding as Scheduled

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17. (U) Portions of the SEACOM undersea fiber-optic cable now rest on the seabed of the Indian Ocean and the Red Sea. SEACOM announced that "the cable has been laid from the edge of the South African waters to Mozambique, and cable-laying is also proceeding in the Red Sea from Egypt towards the coast of Yemen." The remainder of SEACOM's deepwater cable would be deployed from India towards Africa, where the three cable segments would be joined. SEACOM is also busy with land-based construction. High-performance optical transmission equipment, which connects customers to inland terrestrial networks, has been installed in the Maputo, Mumbai, and Djibouti cable landing stations. Construction of the cable station in Kenya would be complete in early February, followed shortly by the Tanzanian and South African stations. Equipment installation in these locations, and in Egypt, would be complete in April. SEACOM noted that it is preparing to provide services to customers by June. Qnoted that it is preparing to provide services to customers by June.

ICT industry players in South Africa await June 2009, when Southern and Eastern Africa become truly connected to international broadband networks. Plentiful bandwidth is expected to result in lower ICT costs and new opportunities across many sectors, including the call center and business process outsourcing industries. (Engineering News, February 4, 2009)

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#### General Electric is Doing Deals in South Africa

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18. (U) Power generation technology supplier GE Energy announced a \$50 million deal to upgrade old steam turbines at synthetic fuels producer Sasol. The announcement follows a 15-year service agreement signed in November by the two companies that provide for installation and maintenance of gas turbines at Sasol's Secunda plant, aiming to increase power efficiency and produce power from otherwise flared methane (also targeting Kyoto-related Clean

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Development Mechanism credits). GE Transportation announced that it had been awarded a contract by Anglo Platinum to provide 26 emergency diesel generators for its mining operations, providing up to 15.4 MW back-up capacity at individual mines. Middle East and Africa CEO Nabil Habayeb, who was speaking at "GE Day" in Johannesburg, was bullish on business in South Africa and Africa, and said he was comfortable with the alignment of the business to Africa's key growth sectors, particularly infrastructure, including energy, water, and transport. GE is sanguine about Africa's growth potential, citing that across the continent, GE has not received a single order cancellation as a consequence of the economic slowdown. (Engineering News, Business Day, February 4, 2009)

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#### Mining and Other Jobs Loss Barometer

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19. (U) The mining industry has shed 8,675 jobs since the end of December, reports the National Union of Mineworkers. Vehicle manufacturers have laid off 1,724 people countrywide, says the union Solidarity. Contract and temporary workers - who are generally not unionized and are the first to go under the axe - are being laid off in large numbers. Solidarity knows of 2,000 contract workers who have been laid off, but suspects the figure is higher. The Department of Minerals and Energy mining task team has urged mining companies to refrain from dismissing contract workers with only a 24-hour notice period. Since its inception in December, the task team has urged mining companies to view layoffs as a last resort and to take such actions in full compliance with the country's labor law and mining companies' social and labor commitments under licensing. (Mail & Guardian, Mining Weekly, January 30, February 3, 2009)

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Audit Shows Gaps in South Africa's  
Mine Safety Standards

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¶10. (U) South Africa's Minister of Minerals and Energy Buyelwa Sonjica on February 2 released the long-awaited national Mine Safety Audit, ordered by past President Thabo Mbeki to investigate compliance with safety regulations in mines. "These audits have indicated that there are a lot of gaps in the safety standards in the mining industry. We are calling on stakeholders involved in the sector to take the finding and recommendations of the report very seriously," Sonjica said. The average compliance across all sectors was identified as 66%, with gold mines earning highest compliance. Critical issues were mine design, shaft installation and maintenance, communication systems, backup power, secondary outlets, safety risk management, health risk management, and training. The ministry said stakeholders would have two weeks to analyze the report and make plans to implement the recommendations. Mbeki ordered the safety audit in 2007, after 3,200 workers were trapped underground at Harmony Gold's Elandsrand mine. The audit was reported to be finished long ago, but its release was delayed to give the new President an opportunity to review. The entire report has not been made available to journalists or the public. The Chamber of Mines and the trade union Solidarity both welcomed the safety audit. (Mining Weekly, Business Day, February 3, 2009)

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NanoAfrica2009 Conference in Pretoria

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¶11. (U) South Africa hosted the third NanoAfrica conference on February 1-4 2009 in Pretoria. NanoAfrica2009 focused on the latest developments and future trends in the multidisciplinary area of nano-science and nanotechnology. South Africa's National Nanotechnology Strategy has identified six "focus areas" for nanotechnology research in South Africa: chemicals and bioprocessing, energy, health, materials and manufacturing, mining and minerals, and water. Minister of Science and Technology Rosebud Mangena expressed satisfaction about South Africa's progress on nanotechnology and its "relatively early" adoption of the discipline. (Engineering News, February 2, 2009)